

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-038
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
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Audit Chief
Assistant Audit Chief
Auditor
Auditor

AUDIT REPORT NUMBER

#08-038

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	10



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Vito Chiesa, President
Board of Directors
38th DAA, Stanislaus County Fair
900 North Broadway
Turlock, California 95380

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 38th District Agricultural Association (DAA), Stanislaus County Fair, Turlock, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 38th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

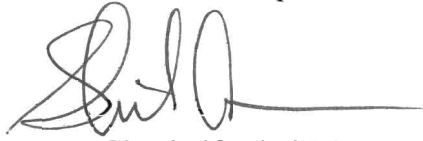
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 38th DAA, Stanislaus County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 38th DAA, Stanislaus County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-038, on the 38th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 38th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

For Ron Shackelford, CPA
Chief, Audit Office

April 25, 2008

**38th DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 118	\$ 606,697	\$ 1,005,930
Accounts Receivable, Net	131	79,303	88,360
Deferred Charges	143	51,900	710
Construction In Progress	190	43,305	31,343
Land	191	72,594	72,594
Building and Improvements, Net	192	1,247,435	1,039,672
Equipment, Net	193	20,390	24,360
TOTAL ASSETS		<u>2,121,624</u>	<u>2,262,970</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable and Other Liabilities	211-212	49,545	46,625
Payroll Liabilities	221 - 226	5,043	4,829
Deferred Income	228	70,830	47,140
Guaranteed Deposits	241	37,350	35,800
Compensated Absences Liability	245	105,667	107,204
Total Liabilities		<u>268,435</u>	<u>241,598</u>
Net Resources			
Reserve for Junior Livestock Auction	251	52,121	61,057
Net Resources - Operations	291	417,344	792,346
Net Resources - Capital Assets, less Related Debt	291.1	1,383,724	1,167,969
Total Net Resources Available		<u>1,853,189</u>	<u>2,021,372</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,121,624</u>	<u>\$ 2,262,970</u>

**38th DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 105,000	\$ 105,000
Project Reimbursement	319-340	72,933	102,205
Admissions	410	1,004,885	1,012,531
Commercial Space	415	16,250	15,500
Carnival	421	405,011	413,475
Concessions	422/423	380,116	375,023
Exhibits	430	25,677	25,014
Horse Show	440	22,641	12,568
Satellite Wagering Facilities- Revenue	450	400,405	397,036
Attractions - Fairtime	460	242,670	342,078
Miscellaneous Fair	470	280,714	150,677
JLA - Revenue	476	39,017	41,025
Non-Fair Revenue	480	296,721	258,166
Prior Year Adjustment	490	21,302	13,255
Other Revenue	495	43,028	54,114
Total Revenue		<u>3,356,370</u>	<u>3,317,664</u>
EXPENSES			
Administration	500	500,859	521,484
Maintenance and Operations	520	849,786	697,326
Publicity	540	173,967	163,795
Attendance	560	258,737	221,120
Miscellaneous Fair	570	142,525	49,156
JLA - Expense	576	47,952	38,246
Premiums	580	83,680	73,314
Exhibits	630	160,304	156,779
Horse Show	640	37,367	36,106
Satellite Wagering Facilities- Expense	650	311,747	293,898
Attractions - Fairtime	660	857,021	956,279
Equipment	723	7,234	17,152
Prior Year Adjustments	800	(2,449)	1,617
Cash Over/Under	850	286	701
Depreciation Expense	900	77,604	80,563
Other Capital Expenditures	945	17,933	19,769
Total Expenses		<u>3,524,553</u>	<u>3,327,304</u>
RESOURCES			
Net Change - Income / (Loss)		(168,183)	(9,640)
Resources Available, January 1		2,021,372	2,031,012
Resources Available, December 31		<u>\$ 1,853,189</u>	<u>\$ 2,021,372</u>

**38th DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (168,183)	\$ (9,640)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	9,057	(26,033)
(Increase) Decrease in Deferred Charges	(51,190)	(704)
Increase (Decrease) in Account Payable and Accrued Expenses	2,921	(2,782)
Increase (Decrease) in Deferred Income	23,689	7,036
Increase (Decrease) in Taxes Payable	214	(19)
Increase (Decrease) in Guaranteed Deposits	1,550	8,550
Increase (Decrease) in Leave Liability	(1,536)	(10,451)
Total Adjustments	<u>(15,296)</u>	<u>(24,403)</u>
Net Cash Provided (Used) by Operating Activities	<u>(183,479)</u>	<u>(34,043)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	(11,961)	(20,959)
(Increase) Decrease in Buildings & Improvements, Net	(207,763)	(23,019)
(Increase) Decrease in Equipment, Net	<u>3,970</u>	<u>6,445</u>
Net Cash Provided (Used) by Investing Activities	<u>(215,755)</u>	<u>(37,535)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(399,233)	(71,577)
Cash at Beginning of Year	1,005,930	1,077,507
CASH AT END OF YEAR	<u><u>\$ 606,697</u></u>	<u><u>\$ 1,005,930</u></u>

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 38th District Agricultural Association (DAA) was formed in May 27, 1935, for the purpose of sponsoring, managing, and conducting the Stanislaus County Fair each year in Turlock, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the 38th DAA. The 38th DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the 38th DAA to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the 38th DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The 38th DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The 38th DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The 38th DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The 38th DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the 38th DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax on all of the DAA's sales of merchandise. The 38th DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The 38th

DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the 38th DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Fund	\$ 24,297	\$ 21,657
Cash in Bank - Operating	62,007	221,825
Cash in Bank - Premium	0	0
Cash in Bank - Payroll	359	623
Cash in Bank – Time Deposits	460,008	722,964
Cash - JLA	50,923	35,730
Cash – SWF ATM	<u>9,103</u>	<u>3,132</u>
Total Cash and Cash Equivalents	<u>\$ 606,697</u>	<u>\$ 1,005,930</u>

NOTE 3 ACCOUNTS RECEIVABLE

The 38th DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 280,673	\$ 268,901
Allowance for Doubtful Accounts	<u>(201,370)</u>	<u>(180,542)</u>
Accounts Receivable - Net	<u>\$ 79,303</u>	<u>\$ 88,359</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$3,382,210	\$ 3,114,461
Less: Accumulated Depreciation	<u>(2,134,774)</u>	<u>(2,074,789)</u>
Building & Improvements - Net	<u>\$1,247,435</u>	<u>\$ 1,039,672</u>

Equipment	\$ 346,960	\$ 349,073
Less: Accumulated Depreciation	<u>(326,571)</u>	<u>(324,713)</u>
Equipment - Net	<u>\$ 20,389</u>	<u>\$ 24,360</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the 38th DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The 38th DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The 38th DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the 38th DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 38th DAA Board of Directors
1	Chief Executive Officer, 38th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

MANAGEMENT REPORT #08-038

YEAR ENDED DECEMBER 31, 2007

38TH DISTRICT AGRICULTURAL ASSOCIATION
STANISLAUS COUNTY FAIR
TURLOCK, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA
Samprit Kaur

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
#08-038

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Bank Account Reconciliations	3
Standard Agreements	3
Satellite Wagering ATM Change Fund.....	4
NON-REPORTABLE CONDITIONS	5
Accounts Receivable	5
Accounting for Fixed Assets	5
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE	7
CDFA EVALUATION OF RESPONSE.....	9
DISPOSITION OF AUDIT RESULTS.....	10
REPORT DISTRIBUTION	11



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Vito Chiesa, President
Board of Directors
38th DAA, Stanislaus County Fair
900 North Broadway
Turlock, California 95380

In planning and performing our audit of the financial statements of the 38th District Agricultural Association (DAA), Stanislaus County Fair, Turlock, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Stanislaus County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 38th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 38th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 38th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 38th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 38th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 38th DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: bank account reconciliations, standard agreements, and the satellite wagering facility (SWF) automated teller machine (ATM) change fund. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 38th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BANK ACCOUNT RECONCILIATIONS

An examination of the Fair's bank accounts revealed the following internal control weakness that may expose the Fair to losses:

- a. Bank reconciliations were not prepared in a timely manner for the operating, premium, payroll, and JLA bank accounts. With a grace period of fourteen days (two weeks) from month end, the elapsed time for completion of bank reconciliations ranged from 12 to 143 days. Timely bank reconciliations ensure that discrepancies occurring are identified quickly and easily resolved.
- b. The premium bank reconciliation was not prepared correctly. The auditor prepared a revised bank reconciliation and determined the adjusted bank balance contained a \$1,515 deficit, which does not agree to the adjusted book balance of zero.

Recommendations

1. *The Fair should prepare bank reconciliations for all accounts in a timely manner. According State Administrative Manual (SAM), "All reconciliations will be prepared monthly within 30 days of the preceding month." The purpose of bank reconciliations is (i) to ensure that paid checks and deposits are reconciled with entries in the cash disbursements and receipts journals, (ii) to identify all current outstanding checks, (iii) to provide a comparison of bank balances to accounting records.*
2. *The Fair should ensure that bank reconciliations are prepared in the manner specified within the Accounting Procedures Manual. This format will help the Fair by ensuring that accurate cash balances are reported in the financial records.*

STANDARD AGREEMENTS

The Fair did not always obtain approval for multi-year standard agreements or any standard agreements exceeding \$75,000 from F&E prior to the execution of the agreement. According to F&E's Contracts Manual, Contract Review and Approval, all Fairs are required to obtain approval from F&E for (i) any multi-year agreements entered into, and (ii) all contracts exceeding \$75,000. Based on our review, we noted four instances of contracts exceeding \$75,000 that were not submitted to F&E for approval.

Recommendation

3. *The Fair should comply with F&E's Contracts Manual Section 1.5 by ensuring F&E approval is received for all multi-year agreements and all agreements amount over \$75,000.*

SATELLITE WAGERING ATM CHANGE FUND

An examination of the satellite wagering facility (SWF) automated teller machine (ATM) change fund revealed the following weaknesses:

- a. Checks prepared by the Fair and provided to various employees to replenish the SWF ATM were not cashed in a timely manner. Our office noted four outstanding checks prepared in December 2007 totaling \$12,000, which did not clear the bank until January 8, 2008. These checks were prepared between 12/14/07 and 12/19/07 and were submitted to employees in SWF to cash for their change fund. Holding checks for an extended time period increases the likelihood of a possible theft, loss, or other misuse of these checks.
- b. Although the Fair issues replenishing checks in \$3,000 increments to adhere to the SAM 8032.4 requirement that a single employee will not transport more than \$3,000 in coin and currency at one time, we noted the cashing of two to six SWF ATM change fund replenishing checks at one time throughout the year resulting in the transportation of \$6,000 to \$18,000 by a single employee.

Recommendations

4. *The Fair should improve internal controls over checks issued to replenish the SWF ATM by ensuring they are prepared only when the replenishment funds are needed. The time period between issuing and cashing the check should never be greater than two or three days.*
5. *The Fair should comply with SAM 8032.4 by ensuring that no single employee will transport more than \$3,000 in coin and currency at one time.*

NON-REPORTABLE CONDITIONS

ACCOUNTS RECEIVABLE

An examination of Account #131, Accounts Receivable, revealed the following internal control weaknesses:

- a. Junior Livestock Auction (JLA) accounts receivable was understated at year-end 2007. There was an unsubstantiated credit adjustment made in the year-end receivable listing totaling \$4,571, which was a plug figure backed into by the Fair after the conclusion of JLA activity. The net result is this adjustment understated JLA-A/R.
- b. Our office noted fifteen credit amounts in the receivable account that represented customer overpayment. Maintaining a credit balance in A/R account decreases the true receivable balance. Credit amounts in the receivable account represent liabilities and should be treated accordingly.

Recommendations

The Fair should make the necessary correcting journal entry removing the unsubstantiated credit adjustment from the accounting records. In the future, the Fair should ensure the amounts reported in the general ledger and year-end financial reports for Account #131, Accounts Receivable, represent only valid amounts owed to the Fair. Any variances and other unusual items should be researched for their cause and corrected.

The Fair should ensure that customer overpayments are recorded as liability since credit amounts in the receivable accounts are liabilities and thus should be recorded as such for proper representation of receivables.

ACCOUNTING FOR FIXED ASSETS

An examination of the Fair's asset depreciation schedule for Account #193, Equipment, revealed the following conditions:

- a. The years in service calculations were incorrectly computed for all assets resulting in years of services understatement of four years for each asset. For example, the depreciation schedule would indicate one year of service when in fact, the actual years in service for a particular asset are five years, thus understating Account# 193.1, Accumulated Depreciation-Equipment.
- b. The depreciation schedule did not contain four items totaling \$33,258, which were properly recorded in the property and general ledgers. As a result, the depreciation schedule did not agree to the property and general ledgers.
- c. The depreciation schedule contained two items totaling \$12,460, which are no longer maintained/owned by the Fair. Although the two items have been properly removed

Management Report #08-038**Turlock, California**

from the property and general ledgers, they have not been removed from the depreciation schedule thus overstating total historical cost and accumulated depreciation per depreciation schedule.

Recommendation

The Fair should ensure that all fixed asset transactions are properly accounted for and recorded in the general ledger, property ledger and depreciation schedule prior to closing at year-end. More emphasis should be placed on ensuring the Fair's fixed asset listings and related depreciation schedules are adequately updated and reconciled to reflect the fair value of related assets.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



September 15, 2008

Ron Shackelford, CPA
Chief, Audit Office
California Dept. of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford,

We are in receipt of the Audit Office's preliminary draft of the financial records for the year ending December 31, 2007, and following is our response.

The reportable areas identified in the 38th DAA's audit deal with the following three areas: Bank Account Reconciliations, Standard Agreements, Satellite Wagering ATM Change Fund. The following is the 38th DAA staff's proposed plan to mitigate these audit findings based on the Audit Office recommendations.

1. **Bank Account Reconciliations:** Bank Statements will be reconciled for all accounts in a timely manner (within 30 days of the preceding month). The only time period where this will be done as timely as possible but cannot be within the 30 days allotted is for July, as the annual Fair ends at the beginning of August and July and August books cannot be closed until September. However, bank transactions are checked on-line daily for balances, discrepancies and/or any abnormal activity.
2. **Bank Account Reconciliations:** The Premium Account bank reconciliation will be corrected of the \$1,515 error at year end 2008.
3. **Standard Agreements:** The Fair should be in full compliance with sending all Standard Agreements exceeding the amount of \$75,000 to Fairs & Expositions for approval, effective for 2008. A few were not sent in 2007 in error.
4. **Satellite Wagering ATM Change Fund:** Checks were issued in December 2007 for January 2008 due to the holiday schedule and the Fair Office closure schedule. We will not hold checks for an extended period of time in the future.
5. **Satellite Wagering ATM Change Fund:** The employee who transports the funds from the bank to replenish the Satellite Wagering Facility ATM machine is a retired Sheriff's Deputy who is licensed to (and does) carry a concealed weapon. He was formerly our Security Officer at the Satellite Wagering Facility before becoming the Supervisor. Because of the exorbitant cost of armored car service, we will attempt to have two people transport the money.

The 38th District Agricultural Association thanks you for your support. Should you have any questions, please feel free to call or write.

Sincerely,

Anthony C. Leo
Chief Executive Officer
38th District Agricultural Association

Jane Conover
President, Board of Directors
38th District Agricultural Association

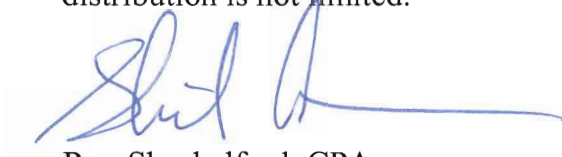
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 38th DAA, Stanislaus County Fair, for its review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 14, 2008 and April 25, 2008. My staff met with management on April 25, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

April 25, 2008

REPORT DISTRIBUTION

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1	President, 38th DAA Board of Directors
1	Chief Executive Officer, 38th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office